Macroeconomics | FIRST CUT

Indian exports resilient in first quarter

July 2024

Export and import growth decelerate in June

Merchandise exports growth eased to 2.6% on-year in June from 9.1% in May as oil exports contracted 18.2%. Non-oil exports, however, maintained momentum at 7.7% from 7.8% last month. Services export growth is expected to have been strong in June.

Merchandise imports also recorded slower growth at 5.0% on-year from a growth of 7.7% on-year in the previous month. This time, core imports, i.e., non-oil and non-gold[1] imports logged stronger growth at 7.1%, as compared to 0.8% growth in the previous month. That said, higher growth in core imports was partly led by the low base effect.

A higher growth in imports compared to exports saw merchandise trade deficit widen to $21 billion from $19.2 billion in June last year.

On a cumulative basis, merchandise exports rose 5.8% to $109.96 billion for the first quarter of fiscal 2025, from $103.9 billion in the year-ago period. This growth in exports in the first quarter of fiscal 2025 suggests that India has managed to keep its exports resilient in the wake of the ongoing conflict in Europe and the Middle East. Cumulative imports rose at a faster pace of 7.7% to $172.4 billion from $160 billion. As a result, trade deficit widened to $62.44 billion from $56.1 billion. **It is also noteworthy that the trade deficit widened due to a higher oil trade deficit, while the non-oil trade deficit narrowed compared with last year**.

Services exports were up 10.2% on-year, growing to $29.76 billion in May[2]. At the same time, growth in services imports moderated to 5.4% on-year after hitting a high of 19.1% on-year in the previous month. Hence, the services trade surplus was recorded at $13.02 billion, up from $11.1 billion in May last year.

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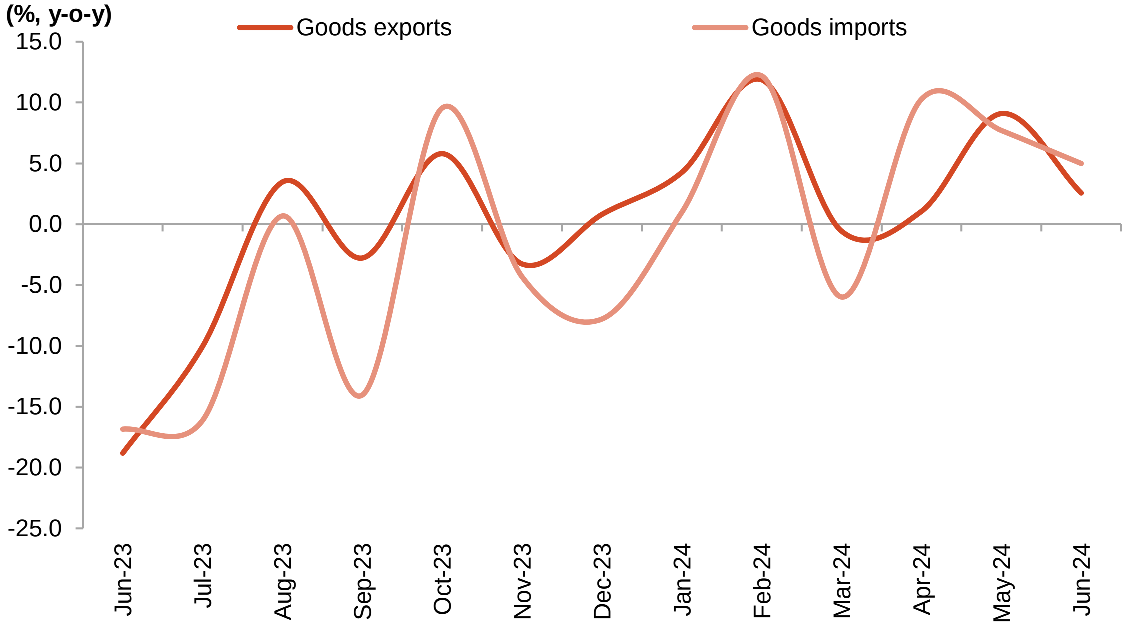
[1] Refers to gems and jewellery

[2] The latest data released by the RBI for the services sector is for May 2024

Both exports and imports supported by a favourable base in June



Source: Ministry of Commerce and Industry, CEIC, CRISIL

Data highlights

- Petroleum exports fell 18.3% on-year and 18.5% on-month in June. This was despite international prices remaining flat (Brent spot price averaged $82.6/bbl in June, compared with $82.0/bbl in May and $74.9/bbl in June last year), suggesting a reduction in export volumes[3]. Exports fell to $5.5 billion from $6.8 billion in June last year and $6.8 billion in the previous month.
- While oil exports fell, oil imports were positive to meet domestic demand at a time when local refineries are operating above their capacity. Oil imports rose 19.6% in June compared with 28% in May.
- Core export goods such as drugs and pharmaceuticals, engineering goods, organic and inorganic chemicals and readymade garments exhibited positive growth. However, growth in pharmaceuticals (9.9% vs 10.5%) and readymade garments (3.7% vs 9.8%) was somewhat slower than the previous month. Gems and jewellery exports remained in the red at -1.4% on-year, compared with a contraction of 2.2% on-year last month.This is the seventh consecutive month of negative growth since December 2023.
- In the labour-intensive exports category, growth in carpets, handloom products, manmade products, plastic and linoleum and readymade garments was positive, but slower than the previous month. Other categories such as handmade carpets, (-16.6% in June vs 20.6% in May), jute manufacturing, including floor covering (-11.1% vs -5.2%), leather and leather products (-2.2% v -2.1%) recorded contraction.
- India has more than 15% of the world's exports share in cashew. Given this, it is worrying to see that our cashew exports have slackened since 2018, with only few months of positive growth. The effects of plunging exports and weak local prices have hit the profitability of the processing units. Cashew (-7.3% vs -25.8%) and other cereals (-77.6% vs -81.5%) saw growth softening in June. Meanwhile, there was healthy growth in categories such as coffee (70% vs 64.2%), fruits and vegetables (7% vs 20.8%), rice (1% vs 2.8%), spices (9.8% vs -20.3%), tea (3.2% vs 19.6%) and tobacco (37.7% vs 58.4%), although at a slower pace than the previous month.
- Marine products (-7.7% vs -3.9), meat, dairy and poultry products (-13.9% vs 22.9%) saw exports shrink.
- Among imports, electronic goods (15.9% vs 6.7%), fruits and vegetables (22.6% vs 3%), non ferrous metals (47.6% vs 1.1%), project goods (31.4% vs -44.3%), textiles, yarn fabric made-up articles (23.8% vs -1.1%) and wood and wood products (16.2% vs -7.2%) saw a notable increase in growth compared with the previous month.

Outlook

The fiscal seems to have started on a good note, with merchandise exports registering positive growth in the first quarter. This along with key multilateral organisations' forecasts of better on-year trade growth are encouraging. The government's increased focus on foreign-trade agreements (FTA) should also provide a thrust.

That said, growth in imports so far has surpassed exports, thus widening the trade deficit. This will remain a key monitorable, especially since the US has announced tariff hikes on Chinese imports, which could potentially lead to some dumping by China in the larger Asian market, including India.

[3] Oil export volume data for June 2024 is not yet available

That said, the expected moderation in domestic growth should keep a tab on growth in imports and, thereby on trade deficit. At the same time, the surplus in services trade and robust remittances flow suggests the current account is expected to remain in a safe zone.

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